

Engaging With Alternative Managers

Stockholm (HedgeNordic) – In preparation of a featured editorial HedgeNordic's upcoming quarterly report, we had the opportunity to interview Martin Källström, Head of Alternative Investments at the Swedish state pension fund AP1. After he explained AP1's exciting new approach to integrating hedge fund investments (which you will find in HedgeNordic's report coming up in early June), Källström shared some insights on how his team engages with managers on sustainable investing. We also followed up on the exclusion story, HedgeNordic's sister site NordSIP analysed a couple of weeks ago.

"Sustainable investing and ESG are important criteria for us in all investments we make," starts Källström. "When it comes to some investment strategies, standard ESG criteria are not applicable as such. With specific types of hedge funds, especially CTAs for example, we focus more on the governance side. Environmental considerations are perhaps less important there than in other asset classes we also invest in, like infrastructure or real estate."

"ESG plays out materially when you invest in the long term," Källström continues. "The longer the investment horizon, the more important the sustainability of the strategy and the actual investment."

According to Källström, most local hedge fund managers already have a fairly good understanding of sustainable investing, and its implications. "Hedge funds lag behind other asset classes in general, but the range is wide. Some managers are improving fast whereas others are still entirely disconnected. Here in the Nordics, ESG is on the agenda for most of the hedge funds we talk to. European managers, in general, have now ESG on the agenda. In Asia and in the US, there is definitely still a long way to go."

Källström and his team take part in spreading sustainable investment practices. "We have been actively educating our managers in this area with the internal competencies we have developed at the AP funds. We are constantly bringing the theme up to the managers. We look at what they do, how they do it and suggest ways they can improve further, whenever possible. Of course, the way we engage depends on the market, the asset class and the time horizon."

The team also has to take into account the list of exclusions the Ethics Council has set up. While a single investor is not able to impose its own exclusions on a commingled vehicle, for example, it is still possible to influence the managers by engaging with them and withdrawing from the investment when ESG issues are not taken seriously. "Whenever possible, we try to invest through structures where we can integrate our exclusions, such as a managed account," Källström adds. "We also have another list besides the companies that are strictly blacklisted. There we find all the companies that are on watch, and that we actively engage with. This is though not something we can do directly when the companies are part of a comingled hedge fund, but we do cooperate with the managers and coordinate our engagement efforts, if possible."

Picture © NordSIP